UNIVERSITY OPERATING GRANT REQUIREMENTS FOR 1983-84

Supplementary Brief

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Last spring, the Council of Ontario Universities presented advice to OCUA, the Minister of Colleges and Universities and the Provincial Treasurer on the level of increase in university operating support required for 1983-84. Since that time, a number of significant new factors have emerged which will affect university operating costs for next year. The Council of Ontario Universities wishes to take this opportunity, therefore, to present revised advice on financial requirements. Much of the data assembled here reflects recent legislative action at both the federal and provincial levels.

Estimated Salary Costs

Clearly, the one factor having greatest impact on COU's advice of last spring is Bill 179, the Inflation Restraint Act. Assuming the passage of this Bill without substantial amendment, three major elements will affect university salary costs in 1983-84. The first of these is the general guideline of 5% for statutory or scale increases. The provisions of the legislation with respect to salaries under $20,000, however, will cause the costs of university salary scales to rise at a rate of 5.3%.

The second element of increased salary costs in 1983-84 arises from the normal operation of merit and experience payments (termed PTR or progress through the ranks in the university sector) to continuing members of staff where such payments, according to the legislation, do not cause an individual's salary to rise above $35,000. The gross costs of such payments are approximately 1.0% of total salary costs. Savings are generated from staff turnover, however, and it is estimated that net costs will be closer to 0.5%.

The final element of increased salary costs in 1983-84 arises from what is termed "salary carry-forward". While the university fiscal year runs from 1 May through 30 April, the university salary year, for the large majority of institutions and employee groups, runs from 1 July through 30 June. Thus the costs of a salary settlement in one fiscal year are "carried forward" into a subsequent fiscal year. Under normal circumstances, variations in salary awards from one year to another are relatively smooth and universities carry the small costs or enjoy the small benefits of any differences which might arise. Given the impact of the legislation, the situation for 1983-84 vis-à-vis 1982-83 will be quite abnormal. With a weighted average scale increase in 1982-83 of 12.0% and fully operational PTR/merit plans in place, the net costs of salary awards were about 14.0%. This compares with estimated net costs in 1983-84 of 5.8%. The costs of "salary carry-forward" are therefore expected to be about 1.8% of total salary costs. It is, of course, recognized that should salary costs increase by more than 5.8% in 1984-85, salary carry-forward would benefit the university sector. It would be quite legitimate, in these circumstances, for the Government to take this into account in determining its level of university operating support in 1984-85.

Projected Increases in Statutory Benefit Costs

In the area of statutory benefit costs, the recently announced increases in unemployment insurance employer premiums and in the level of maximun insurable earnings will have the greatest impact. These cost increases, which will take effect 1 January, 1983, will have to be absorbed by the universities and will undoubtedly generate considerable increased costs

for the fiscal year 1983-84. We estimate the increases will total about $6.8 million.

Further, an unrecognized cost imposed on the university sector in 1982-83 has arisen from the significant increase in OHIP premiums. This cost has been estimated at $1.2 million. We would hope that this cost, too, could be recognized by the Government for 1983-84.

Finally, we wish to note as well that the proposal (put forward for discussion in "Ontario's Tax Structure: Options for Change") for a payroll tax to substitute for OHIP premiums would give rise to a significant (some $12.7 million) cost increase in the university sector. Were such a proposal to be implemented, we would expect that due recognition would be given to the resulting increased cost.

Projected Increases in Non-Salary Expenditure

COU has for some years now monitored the rate of cost increase for non-salary items through the Ontario University Non-Salary Price Index (OUNSPI). Over the ten year period for which we have data, OUNSPI has increased at a rate about 25% higher than the Consumer Price Index. In certain selected areas in 1983-84, we expect costs to rise significantly faster than the CPI. For example, price increases for oil and gas, which are a large component of OUNSPI, are expected for 1983-84 to be 23% higher than present rates. In addition, it is expected that prices for library acquisitions will rise by about 15%.

It is assumed that the CPI will rise by about 8% in 1983-84. Undoubtedly, some element of non-salary expenditure (about 20%) will benefit from restrictions on price increases imposed by both federal and

provincial governments. For these items, we assume a 6% rate of inflation. For oil and gas (10% of OUNSPI), we assume a 23% price increase; for library acquisitions (a further 10% of OUNSPI), we assume a 15% price increase. On the residual 60% of non-salary purchases, we estimate a 10% inflation rate (being CPI + 25%). The composite university non-salary price index is expected to rise, therefore, by 11% in 1983-84.

One further factor giving rise to increased non-salary costs for universities arises from recent changes to the Retail Sales Tax Act eliminating certain major exemptions which the university community had previously enjoyed. We are pleased at the favourable response of the Treasurer to our request that certain exemptions be restored and report with appreciation the results of discussions with representatives of the Ministry of Revenue concerning treatment of residence meal plans and research equipment and materials. For those items included in university expenditures which are now subject to sales tax, however, we estimate that the cost of the tax in 1983-84 will amount to some $7.4 million. We strongly urge that the Government afford recognition to these increased costs in determining its level of university operating support for next year.

Equipment and Capital Needs

In addition, COU wishes to note the urgent need that exists to initiate a rational programme for replacement of operating (as distinct from research) equipment. Such a programme would cost an additional $31.1 million if implemented in 1983-84. It is realized that infusion of funding of this magnitude into normal university operating support may

not be practical at this time. Nevertheless, the need to replace existing stocks of operating equipment remains. COU recommends, therefore, that alternative funding sources for equipment replacement be found (such as through BILD) until these costs can be absorbed in a normal way in increased university operating support.

Finally, it should be noted that since this brief deals with operating grants; it contains no reference to the universities' capital requirements which are also significant. Again, we hope that special programmes related to the Province's stated goal to develop its infrastructure can be tapped to address the universities' needs.

Enrolment

Enrolment pressure on the universities of Ontario continues to persist to such an extent that more and more institutions are exploring means of generally restricting enrolment growth. Last spring, enrolment was projected to grow by about 4.5%. When the final numbers come in for enrolment this Fall, we expect that they will show enrolment growth of about 4.0%. Again, the advice we rendered last Spring has been adjusted (downwards) to take the costs of this increase properly into account.

Required Grant Increase for 1983-84

The attached Table 1 transforms the factors cited above into the format traditionally used by OCUA in formulating system funding requirements for a given year. It indicates a need for growth in total funding of 10.7%. Table 2 displays how the various components of our advice contribute to making up this figure.

Under normal circumstances, the 10.7% figure might be regarded as an accurate proxy for required increases in operating grant support. For 1983-84, however, a substantial portion of university revenue, that derived from tuition fees, has been constrained to grow by no more than 5%. Consequent upon this constraint and the prospect of level or declining "other" revenue due to significantly lower interest rates, the universities of this province will require an increase of 11.8% in grant revenue in order to maintain a financially balanced position on the year's operation.

Table 1

COU Funding Recommendations for 1983-84
($millions)

	Estimated Expenditures 1982-83	Inflationary Trend Cost 1983-84	Existing Service Level Cost 1983-84	Efficiency Factor (Negative)	Predicted Enrolment Costs 1983-84	Stabilization Factor + or (-)	Cost of Basic Objectives 1983-84
Salaries	964.6	57.4[a]	6.4[c]	-	41.1	(20.6)	1048.9
Benefits	114.0	6.8[b]	7.7[d]	-	5.1	(2.6)	131.0
Non-Salary	260.9	28.7	7.4[e]	-	11.9	(5.9)	303.0
Total	1339.5	92.9	21.5	-	58.1	(29.1)	1482.9

[a] Includes $14.8 million salary carry-forward (a rate of 9.3% for 2 months) and $42.6 million scale increase (a rate of 5.3% for 10 months).

[b] Includes $1.8 million benefit carry-forward and $5.0 million for benefit costs arising from scale increases.

[c] Includes $2.4 million PTR carry-forward (a rate of 1.5% for 2 months) and $4.0 million for PTR in 1983-84 (a rate of 0.5% for 10 months).

[d] Includes $0.3 million benefit carry-forward and $0.5 million for benefit costs arising from PTR. Also includes $5.7 million for UIC payments in excess of normal provision and $1.2 million for unrecognized OHIP payments.

[e] Includes $7.4 million for the unrecognized costs arising from the introduction of sales tax on university non-salary purchases.

N.B. This table excludes a provision of $31.1 million for additional equipment replacement which is required in order to initiate a 15 year equipment replacement cycle.

Table 2

Component Contributions
to System Funding Requirements

	Funding Increase Required ($millions)	% of Item	% of Total	
Salaries:				
Carry-forward	17.2	1.8%	1.3%	
Scale and PTR/Merit	46.6	4.8	3.5	
	63.8	6.6%	4.8%	
Benefits:				
Carry-forward	2.1	1.8%	0.2%	
Scale and PTR/Merit	5.5	4.8	0.4	
	7.6	6.6%	0.6%	
Additional Statutory	6.9	6.1%	0.5%	
Non-Salary:				
Inflation	28.7	11.0%	2.1%	
Sales Tax	7.4	2.8%	0.6%	
SUB-TOTAL	113.2			8.6%
PROVISION FOR ENROLMENT GROWTH	29.0			2.1%
TOTAL REVENUE REQUIREMENT	143.4			10.7%
LESS: Increased fee revenue	20.4			
TOTAL GRANT REQUIREMENT	123.0			11.8%

N.B. This table excludes a provision of $31.1 million for additional equipment replacement which is required in order to initiate a 15 year equipment replacement cycle.